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22   Q. All right. This will be the deposition of

23 Jeffrey O. Henley taken pursuant to notice issued by

24 the United States. Mr. Henley, would you state your

25 full name for the record, please?

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1   A. Jeffrey Owen Henley.

2

20   A. My home is 1605 Alisa Lane, A-L-I-S-A, Lane in

21 Santa Barbara, California. My work address is 500

22 Oracle Parkway in Redwood Shores, California.

23   Q. All right, sir. Could you give us a brief

24 description of your educational background?

25   A. I grew up in Southern California, attended

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1 college at the University of California at Santa

2 Barbara. Got an economics degree. Then I got a

3 Master's in business administration at UCLA.

4   Q. All right, sir. Approximately when was that?

5   A. I graduated from Santa Barbara in '66 and I

6 got my MBA in 1967.

8   Q. All right, sir. Now could you tell me how

9 long you have been with Oracle?

10   A. Just over thirteen years.

11   Q. All right, sir. So that would take us back to

12 about '91?

13   A. March of '91 I joined.

14   Q. All right, sir. What was your position with

15 Oracle in March of '91?

16   A. The Chief Financial Officer. I have always

17 been the Chief Financial Officer during my tenure.

18   Q. All right. At some point in time you took on

19 the additional title of Chairman of the Board?

20   A. Yes. Very recently. I believe it was January

21 of this year.

3   Q. Just so we're clear on the record, could you

4 describe generally what your responsibilities are in

5 your role as CFO?

6   A. Right. So I have responsibility as Chief

7 Financial Officer of, obviously, all the financial

8 functions. So tax, treasury, controllership,

9 forecasting, so forth.

10   And, as I just mentioned, I also have

11 responsibility for some other administrative

12 functions. So more of a management oversight. We

13 have a Chief Legal Officer, General Counsel. We have

14 a Chief Human Resource Officer. So they run those

15 functions but report through me to the company.

16   So, again, HR, legal. I have a -- there is a

17 function called manufacturing distribution that

18 distributes our software and materials to customers.

19 I have -- we have a leasing business where we perform

20 a leasing function for some of our customers for their

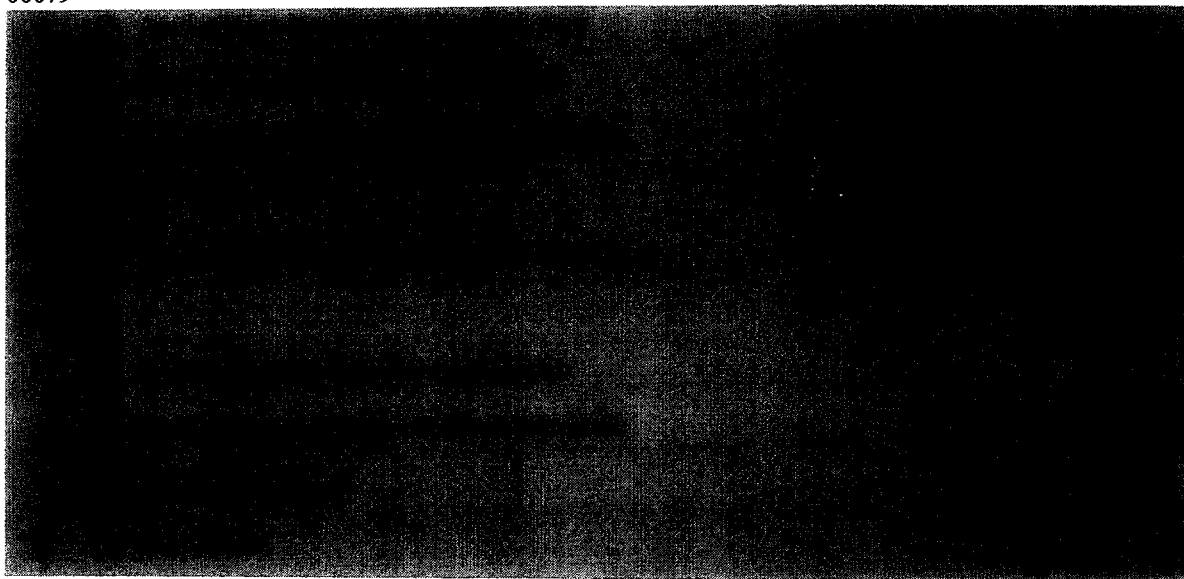21 technology. So that reports to me, as well.

22   Q. Leasing what?

23   A. Leasing our software. So customers want

24 payment plans, if you will, for buying our

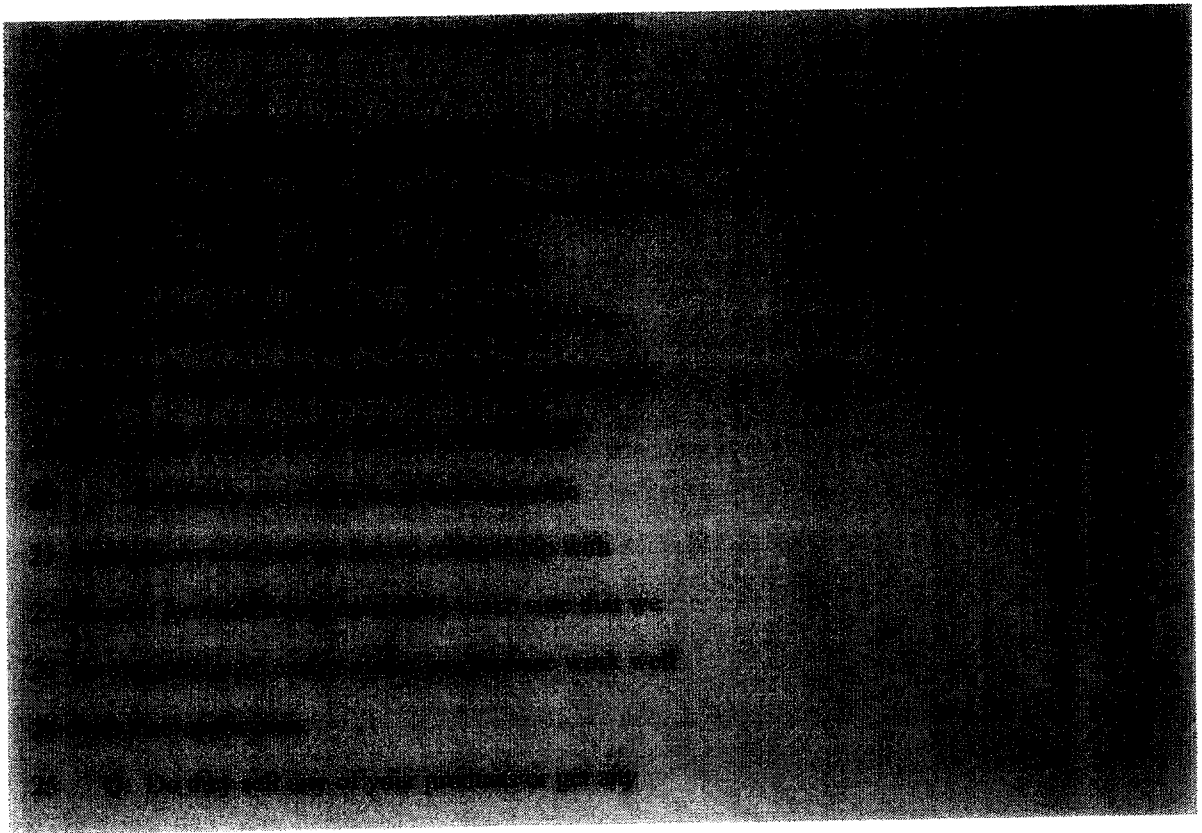25 technology. So we have a business to help provide

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1 financing if they don't care to do it themselves.

2 It's kind of a one-stop shopping idea.

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1 compensation because of this relationship?

2   A. They actually have a reseller relationship.

3 So they go to the customers and actually have a right

4 to sell them our database and then send us a royalty

5 for the sale, on those sales, send part of that money

6 back to us.

7   Q. Is that done just in Europe or is that true,

8 also, in the United States?

9   A. I think it's global. I believe it's a global

10 agreement.

11   Q. Do you know how long that relationship has

12 been in place?

13   A. Many years. Many, many years. Maybe as long

14 as I have been here. If not, shortly thereafter. I

15 mean, it's been well over ten years.

21   Q. Do you have a relationship with any other

22 software applications vendor where you have people

23 that work with them to help them maximize their

24 software's interaction with your database?

25   A. Absolutely. We have a number of applications

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1 companies who draw upon our resources, if they have

2 questions or want to have training or whatever. So we

3 have a bigger relationship at SAP only because they

4 are so large.

5   So they have asked for more dedicated

6 resources over the years, and we've been happy to do

7 it, because it's to our benefit since they generate a

8 lot of business and generate a lot of Oracle database

9 business. But we make available to -- some form of

10 support to literally any company that wants to run

11 their application on our database.

12   Q. But nobody else has a dedicated team actually

13 at their site?

14   A. I don't know the answer to that. I am not

15 sure.

16   Q. Okay. Does any other application software

17 vendor have a reseller relationship for your database

18 product, other than SAP?

19   A. For our database product. I believe that --

20 again, I don't get involved in the pricing of this,

21 but my understanding is we have an option but now with

22 many ISVs. These are -- SAP would be an independent

23 software vendor, that's the term. Where they give us

24 a percentage of their deal, so we have an option.

25   How many people use that option, I don't

00084
1 know. But if you go out and sell your software for

2 $50,000 to somebody and it runs on our database, you

3 give us X percent of the 50,000 as relating -- as a

4 payment for the fact the database is running the

5 application.

6   So we actually have royalty payments we get

7 from many, many software companies. But SAP is by far

8 the largest. I mean, it's a disproportionate amount

9 of money we get from them.

25   Q. Other than SAP, can you name any other

1 software application vendors who have an arrangement

2 with you where you resell their database product in

3 exchange for a royalty?

4   A. Where they resell our database?

5   Q. Yes.

6   A. I can't name them, but I'm positive there are

7 many. But, again, I'm told that we actually have got

8 a standardized fee deal now where we offer that. So I

9 believe there were a number of maybe small ones. I

10 just don't know. But I just don't know the names.

11   Q. But SAP, as you said, would be probably the

12 biggest?

13   A. Oh, yes, by far, because they are the biggest

14 applications company in the world.

15   Q. Do you have any idea of what volume of sales

16 of your database that they make annually?

17   A. I think they generate royalty payments back to

18 us of over a hundred million dollars a year. I mean,

19 it's enormous. They dwarf any other company in terms

20 of reporting royalties back to us.

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18   MR. SCOTT: Q. All right, sir. You have in

19 front of you a document which has been marked for

20 identification purposes as Plaintiffs' Exhibit 35.

21 It's a multipage document, which does not have

22 identification numbers other than on the front being

23 June 10, 2003. This was part of the 4C filings that

24 were submitted to the United States.

25   The document is numbered on the bottom

1 right-hand corner. It's 48 pages in length. The

2 first page says Board Presentation on M&A

3 Opportunities, April 14th, 2003.

4   Do you see this?

5   A. Yes.

6   Q. Is this -- does this document have anything to

7 do with the board meeting that you talked about where

8 M&A opportunities were discussed?

9   A. Yes.

10   Q. And what is the relationship between that

11 board meeting and this document, Exhibit-35?

12   A. We periodically have had discussions, so we

13 decided at this board meeting we should update the

14 board and have a discussion about what potential M&A

15 ideas we had.

16   Safra Catz made -- led the discussion and

17 presented this package or presented some of these

18 documents to the board in terms of ideas that we had

19 about possible acquisitions.

20   Q. And you are a member of the board?

21   A. That's correct.

22   Q. And were at that time?

23   A. That's correct.

00092

13   MR. SCOTT: Q. And this document, Exhibit-35,

14 was put together by the M&A group that works for

15 Ms. Catz?

16   A. That's my -- as well as her. I don't know

17 what role she played, but obviously she probably had

18 some role in terms of this, as well. But she has

19 people in her group that clearly helped her put this

20 together.

21   Q. All right, sir. If you would look at page 3

22 of the document. Again, we're still talking about

23 Exhibit-35 to your deposition.

24   On page 3, there is a chart headed Enterprise

25 Software Competitive Profile. Do you see that?

00093

1   A. Up here (indicating)?

2   Q. Yes, sir.

3   A. Yes, sir. Yes, I do.

4   Q. Do you recall whether this document was the

5 subject of discussions with the board at the board

6 presentation?

7   A. I don't remember if we showed this particular

8 slide. They got a copy, I believe, of all of this. I

9 don't think we went through every slide. So I am --

10 but, I mean, it wouldn't surprise me if they presented

11 this. But clearly they were exposed to the

12 information.

13   Q. All right, sir. Do you have any understanding

14 of what it means across the top, the Key: No

15 Presence, Not Significant, Player, Competitive?

16   A. Yeah. I think this was an attempt to kind of

17 take all these different areas where we either compete

18 or might want to compete, look across at some of the

19 larger competitors. There is, obviously, other

20 smaller competitors that you just can't put everybody

21 on the list, and try to give visually some way of

22 saying, here is the landscape. Here is some of the

23 major competitors. Here is kind of where even Oracle

24 plays.

25   But, I mean, there are some areas here where

1 we don't play, but they were still listed because they

2 were areas where we have logically from time to time

3 thought about maybe going next.

4   Q. Well, for example, when you have got on the

5 Key the indication, "No Presence," I take it that

6 would mean that the company that you are referring to

7 on the charts does not have a product?

8   A. Yeah. For instance, IBM -- and, again, it's

9 an oversimplified chart. IBM actually does have a few

10 applications, but we don't think that they are

11 material, so we say "no presence."

12   But, typically, they have a big business in

13 implementing other software for Siebold, us. They

14 bought PWC, so they are in the business of

15 implementing Oracle applications.

16   They have an outsourcing business where they

17 run our applications. So, but yes, they don't have

18 any significant play in products per se in the

19 applications space.

20   Q. Well, then we've got the presence here, the

21 next key point is Not Significant. So what is the

22 difference then, as you described it, between Not

23 Significant and No Presence on this chart?

24   A. Again, I think the idea is sort of going up

25 the level of importance or amount of presence, at

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1 least at the present time. So it's kind of a way to

2 visually say they have something but at least for

3 right now they don't appear to have as much as some of

4 the other people on this chart.

5   Q. Okay. And Player, what does that mean?

6   A. There, again, going up this level that they

7 are clearly more presence than not significant, but

8 they are maybe not fully effective yet. So it's a way

9 of kind of rating the effectiveness of the

10 competition, at least.

11   And, again, this is not meant to be so much

12 perspective as right here now a year ago when they put

13 this chart together. And, again, based on their

14 knowledge. Sometimes we have imperfect knowledge,

15 too.

16   Q. And Competitive, what was meant by that on the

17 chart?

18   A. Clearly, we see them here and now. We see

19 them a fair amount of time. So they are clearly one

20 of the people we really are battling with right now in

21 the space that we're in, which changes, as well.

22   Again, I'd stress in every one of these spaces

23 there is many other competitors. There is a whole

24 bunch of business intelligence people that weren't

25 displayed on here.

1   For instance, Business Objects, Cognos, I

2   mean, people that are really the major business

3   intelligence players don't even show up on this list.

4   This was meant really just to sort of a give a quick

5   overview to the board without getting into the details

6   of every segment.

7   As you know, the bulk of this related to just

8   a few key people we thought would make sense to look

9   at. In fact, I just saw Business Objects on here. I

10   don't think they are even on this top screen here.

11   Q. But they are listed as one of the --

12   A. Yeah, but they are not on this chart you have

13   been making me go through here. It's clearly not all

14   inclusive chart of all the competitors or people that

15   are competitive or people who are players.

16   Q. All right. So let me ask you to flip over, if

17   you would, in the document to Exhibit-35, page 36.

18   A. (Complies.)

19   Q. All right, sir. Was Lawson one of the

20   companies, potential acquisition partners, that was

21   discussed at this board meeting?

22   A. I can't remember if we discussed it. I

23   believe we probably would have at least talked briefly

24   about it. I mean, in these meetings, these things

25   trigger a lot of conversation, and so typically you

00097
1 sort of, you know -- but I'm sure we must have at

2 least mentioned it.

3   But, again, the whole pack was here. I just

4 don't remember what degree of discussion we would have

5 had about Lawson. But we wouldn't have put it in here

6 if we didn't think this was something we should think

7 about.

8   Q. All right, sir. Do you know if there were

9 ever any discussions between Oracle and Lawsons

10 regarding potential acquisition?

11   A. I don't know.

12   Q. All right. So looking at the Lawson chart on

13 page 36 of Exhibit-35, under the heading Potential

14 Upside, there is a bullet point which states, "Focus

15 on mid-market services sector is complimentary to

16 Oracle's strengths," and then it goes on to say,

17 "Health care is strongest vertical with 21 percent of

18 customer base. Others include retail, 12 percent,

19 professional services, 8 percent, financial services,

20 8 percent, and public sector, 6 percent." Do you see

21 that?

22   A. I do.

23   Q. Do you recall any discussions regarding Lawson

24 having a focus on mid-market services sector?

25   A. Again, I don't remember the discussion but, I

1 mean, it's ironic. I mean, clearly we misuse terms at

2 Oracle. When you talk about health care, clearly some

3 of their health care customers are hardly small

4 customers. Mayo Clinic Center, enormous, enormous

5 hospital chain.

6   So we mix all kinds of terms here. But I

7 don't remember exactly what we would have discussed

8 about Lawson in the meeting.

9   Q. So is it your testimony that the use of the

10 term "mid-market services sector" in the presentation

11 to the board on potential acquisition products is

12 somehow inaccurate in describing Lawson?

13   A. I am saying that to use the word "mid-market"

14 and to put in below it health care is a vertical does

15 not imply that the only health care customers we serve

16 are mid-market customers. And, again, the whole word

17 mid-market, my experience in this industry is

18 everybody has a definition, differing definitions of

19 what mid-market means.

20   But if the term, I think, generically means at

21 some point something smaller than large is what they

22 call. I don't know where you break that off.

23 Everybody has different definitions. Then I would

24 submit that Lawson sells lots of health care

25 organizations that are clearly not small or that are

00099
1 medium. They are large health care companies.

2   So that's why I say to me if I were doing the

3 presentation I would have segmented health care off to

4 the side and never implied that that's a mid-market

5 sector.

6   It's just like any other sector. There is

7 some large small hospitals and there are some very big

8 ones. There is big health care chains. So to me it's

9 just a little bit confusing.

10   I am not trying to be critical of whoever put

11 this chart together, but it kind of makes two

12 different points under one bullet point, in my

13 opinion.

14   Q. Do you recall any discussions at the board

15 meeting regarding this part of the study focusing

16 mid-market service sectors and talking about Lawson

17 health care was inaccurate?

18   A. No, I don't. I'm just telling you since you

19 keep asking me about mid-market, I'm just telling you

20 looking at the chart, thinking about it, I have no

21 idea if we even went through this particular chart at

22 the board meeting.

23   Q. Do you know, are there health care companies

24 that you would consider to be in the mid-market?

25   A. Again, in my definition, which I think

00100

1 everybody has their own definition, even in our

2 company, let alone industry analysts, I would say

3 there clearly are very small hospitals that might have

4 a hundred beds, and then there is very big hospitals

5 that might have 1200, 1500, and then there is

6 something like Mayo that actually has multiple

7 hospitals.

8   So, at some point, you know, one is large, one

9 is small, and what's medium I have no idea. But

10 clearly the hospitals vary in size and scope and all

11 that sort of thing.

12   Q. What is your definition of mid-market?

13   A. I have tended in the commercial side to think

14 of businesses around a quarter of a billion and

15 smaller. But, again, you can interview five people at

16 Oracle, and I bet you they will all give you a

17 different size. Different industry analysts, some

18 people say 500, some people 50.

19   It's a term that I think is meant to be

20 something less than very large. Then the breakdown is

21 how do you really define that. Everybody has a

22 different definition. At some point, where is this

23 break point?

24   Q. Okay. Do you believe that there is, in fact,

25 though, however you define it, a group of customers

1 that you would define as being in the mid-market?

2   MR. ROSCH: Object.

3   THE WITNESS: I think there are customers that

4 are clearly significantly smaller than large

5 customers, and clearly -- at a minimum much smaller,

6 have many fewer employers and that sort of thing. And

7 then sometimes they are in one country.

8   So sometimes large connotes just an enormous

9 US company versus some small US company, or sometimes

10 large gets even more complicated because they are

11 multi-national.

12   But I think there is clearly small customers,

13 there is medium customers, there is big customers. So

14 as I testified earlier about these break points, you

15 know, we've tended to recognize that there are

16 different kinds of customer needs, price driven, all

17 sorts of things, and so there is classic market

18 segmentation that goes on in our industry in terms of

19 kind of thinking about the differences between

20 customers.

15   MR. SCOTT: Q. Why -- do you have any

16 recollection as to why Oracle thought JD Edwards would

17 be a good fit as an acquisition partner?

18   A. Again, the theme has been that we felt that

19 getting a stronger presence in the applications space

20 would be useful to us. So they were in the

21 applications space, along with Lawson, Peoplesoft, a

22 number of other -- Cerner, a number of other companies

23 that are in the package there.

24   So it was really in that spirit that it gives

25 us a bigger presence, a bigger foot print in the

1 applications business.

2   Q. Well, if you would look at page 26 of

3 Exhibit-35.

4   A. Uh-huh.

5   Q. Under the heading Potential Upside, the second

6 bullet point indicates one potential upside of Oracle

7 acquiring JD Edwards is it would be "addition of a

8 strong mid-market presence." Do you see that?

9   A. Yes.

10   Q. Do you recall any discussions about that?

11   A. Whether this meeting --

12   Q. At the board meeting.

13   A. Again, I am not sure. I mean, clearly, we've

14 had discussions, but I don't know at the board meeting

15 if we talked specifically about that.

16   Q. Did you talk to anybody in any context other

17 than the board meeting about JD Edwards adding a

18 mid-market presence to your portfolio?

19   A. I'm sure we have. I mean, JD Edwards had a

20 strong AS-400 base over the years. Clearly, the

21 AS-400 market IBM has huge presence in the AS-400

22 market that's on their hardware. It's clearly been

23 geared more towards either smaller customers or

24 divisions of big companies.

25   But, I mean, it's classically -- you know, IBM

1 had their mainframes and then they had their AS-400s.

2 Classic market segmentation on the part of IBM.

3   JD Edwards had that business and then they got

4 into Unix and some other platforms, and they were

5 selling also to large customers.

6   Q. When you talk about the AS-400 that JD Edwards

7 had a product for, and you said that that was used

8 primarily by smaller companies, what did you mean by

9 "smaller companies" in that context?

10   A. Again, I don't know where you draw the line,

11 but typically either companies of, you know, a few

12 hundred people versus thousands and tens of thousands

13 or divisions of big companies that had chose to use

14 that platform.

15   That platform has been around for years, and

16 there is many, many people who have used the AS-400

17 platform, and JD Edwards built a good business around

18 selling packaged applications on that platform.

25   Q. When in Exhibit-35 it has the phrase that a

1 potential upside is the addition of a strong

2 mid-market presence by acquiring JD Edwards, do you

3 know what definition is used there for mid-market?

4   A. No. Again, I believe that it's the same. I

5 think everybody has got a difference, but in my mind

6 it connotes, you know, smaller to substantially

7 smaller organization size than very large, large

8 organization size.

9   Q. All right. And the significance of the

10 company's being smaller is what in the context of

11 segmenting the market, as you referred to it?

12   A. Again, to me it's just numbers of people and

13 transactions. It's not necessarily a reflection of

14 complexity or sophistication. It can be that, too.

15 It can be a company that's just real simple and basic,

16 but I don't think that's the big -- the biggest thing

17 is just size, and ultimately budgets.

18   There is a lot of people that actually want --

19 that's why we think we can do better and better with

20 our products if we can hit these price points.

21   It's just you have to be -- you have to figure

22 out a way to hit a certain price point to get smaller

23 organizations interested or have enough budget to be

24 able to take on your products.

25   Q. Is that the rationale behind running out the

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1 -- rolling out the Oracle standard product in Europe?

2   A. That's what I told you earlier. That's

3 correct. It's very much geared towards simplification

4 and ultimately getting to a price point that we can be

5 competitive in smaller organizations.

6   Q. Was the rollout of that product in Europe the

7 first time that you had actually come out with a

8 package of software that was configured in a way that

9 you thought would attract to smaller customers with

10 lower price points?

11   A. It's one of a series of things we've tried

12 over time. We've had an active program in the United

13 States to try to sell to smaller companies. We've

14 organized a separate sales force for a number of

15 years. So there is a variety of techniques we've

16 tried to do to get focus to find different partners

17 who could implement cheaper.

18   The distinction, I would say, with Standard

19 Edition was that in addition to that in Europe we

20 tried to say, okay, we will just sell it to this

21 channel and we will preconfigure a set of apps, and so

22 we will really, really go to the extreme here to see

23 if that will work. And if it works in Europe, then

24 maybe we can make it work in Asia, the Americas, and

25 so forth.

00115

1   Q. You indicated that at some point in time you

2 had a separate sales force aimed at smaller

3 companies. Did I hear that right?

4   A. Oh, absolutely.

5   Q. Do you still have that?

6   A. Effectively, yes.

7   Q. What does that mean?

8   A. Well, we used to have a separate sales

9 management in the United States that we carved out.

10 We said, you people are what we call general

11 business.

12   IBM has used that term over there, so people

13 have all kinds of terms: Mid-market, general

14 business, whatever. But basically geared towards

15 smaller organizations who had, who are very price

16 sensitive. And so we think that the sales force has

17 to behave differently.

18   They have to learn how to be very nimble, not

19 get involved in long sales cycles so that we can make

20 money with these small companies.

21   We worked with a different set of small local

22 implementers. So then we put the groups back together

23 again a couple years ago. But effectively, the way

24 the sales force in many of the cities works, there

25 still is a general business sales force. They just

1 happen to be all part of one geography now.

2 But you cut through it and there is still

3 managers and all they do and their sales reps is call

4 upon these smaller organizations. We think it's

5 important to be organized that way, because we have to

6 be very nimble.

7 The only way we can make money is we've got to

8 turn a lot of deals and we've got to learn how to use

9 different partners and that sort of thing. So there

10 is a segmentation in the way we think and the way we

11 focus.

12 Q. You say that -- and you just used the term

13 "general business." That talks about the smaller

14 companies that you are hoping to be able to get price

15 points that are attractive for?

16 MR. ROSCH: Objection.

17 THE WITNESS: That's what we called the

18 organization that we at one time had in the US, our

19 general business sales force. We don't call it that

20 anymore, because it's been melded into the regular

21 sales force.

22 But, effectively, that's the way they are

23 still organized in some of these markets. They still

24 have this sort of separate group of people that tend

25 to sell to smaller companies.

1   We also have sales forces that sell to

2 industries. So it's very complex. There is some

3 people that have an industry focus and they may even

4 sell to smaller and large customers, too.

5   MR. SCOTT: Q. But you indicated that the

6 folks that sell to the smaller businesses, the ones

7 that used to be called the general business sales

8 force, have to be more nimble and do a shorter sales

9 cycle so you folks can make money, right?

10   A. Uh-huh.

11   Q. What did you mean by that?

12   A. That when you are selling to some big

13 companies sometimes they -- the sales cycles are much

14 longer, there is many more people involved, and so you

15 get used to a way of selling.

16   You are trained as a salesperson to go through

17 all the steps of selling, and how -- you can't afford

18 to do that in these small companies.

19   So we've found that the mentality of a

20 salesperson who had sold to IBM or sold to some huge

21 company was -- the way they are prepared, the way they

22 just thought, that it was almost counter intuitive for

23 them to now go out and now call on 20 customers in the

24 course of a year.

25   And we're not the only people, by the way.

00118

1 IBM had a general business sales force. We are not

2 reinventing the wheel here. That's just the way

3 selling works, in general, in this industry.

4   Q. Why would the smaller companies going through

5 the longer sales cycle that you do for the bigger

6 companies with the smaller people result in you not

7 makings sufficient return on those sales?

8   A. Because if you absorb a lot of resources to do

9 a nine-month sale, and you now do the same sale to a

10 small company, by resource, we may have 10 people

11 working on the deal for a large customer.

12   A small customer, you've got two people

13 working half the time. So the amount of effective

14 people and expense to sell can't be the same when you

15 sell to a small company as a large company.

16   Q. Okay. Is the --

17   A. So a salesperson -- just continue.

18   Q. Sure.

19   A. So if you are really selling to a large

20 sophisticated customer sometimes you have to marshal

21 some additional resources, and so the sales rep gets

22 very food at that.

23   A sales rep to sell to a small company has to

24 be a one man band, or a one woman band, and they have

25 got to be nimble and be able to wear a lot of hats.

00119
1 So it's difficult to find people who can do both.

19   Q. Now, is the idea of using this product, the

20 Oracle -- I'm sorry. Your product is what, again, the

21 name of it? I have gotten confused now.

22   A. I believe it's called Special Edition.

23   Q. Okay. The Special Edition product in Europe,

24 that was implemented in order to see if that would

25 have attraction, be attractive to smaller companies?

00121

1   A. Yes. The idea is could we hit a price point

2 that would -- and could we find, run this through the

3 channel, hit a price point that we could sell it in

4 much greater volume. A combination of

5 preconfiguration, but most importantly giving an

6 exclusive to a new channel to go out and sell this

7 thing in volume.

00145

24   Q. All right, sir. Now, it states here in the

25 first line of the answer part of that on page -- in

00146

1 Exhibit-34 on page 00204472 that, "There is minimal

2 integration risk. It will be clear to customers that

3 the O product is the surviving product." Do you see

4 that?

5   A. Yes.

6   Q. Do you have any understanding of what's meant

7 there by the term "the surviving product"?

8   A. Yes. I testified earlier to you this morning

9 about why this integration risk is far less than the

10 Peoplesoft strategy. So all of the things I told you

11 before supports this statement that he's made here.

12   Q. All right, sir. If you would look over at the

13 next page of the document, the page with the

14 identification number 204473. About two-thirds of the

15 way down the page there is a couple of -- well,

16 actually three questions, all bunched together.

17   "Don't O and P have a lot of overlap already

18 in the customer base? Where's the incremental cross

19 selling opportunity in growth?" And "Does this in any

20 way raise the organic growth of O?" Do you see those?

21   A. Yes.

22   Q. If you would, just again so you've got the

23 context, go ahead and read the answer that goes with

24 those questions and continues over to the next page,

25 and then I will have a couple questions about it.

00147

1   A. (Complies.) Yes, I have read it.

2   Q. All right, sir. The first line of the answer

3 part of it says, "We do have plenty of common

4 customers, which we view as a strong reason to

5 approach this acquisition in the manner we've

6 chosen." Do you see that?

7   A. Yes.

8   Q. Do you have any understanding of what is being

9 referred to there by the term "common customers"?

11   THE WITNESS: Yes. Yes, I think I do.

12   MR. SCOTT: Q. All right, sir. What is that

13 understanding?

14   A. This is a customer who might have Oracle

15 financials or Oracle HR. It might have

16 Peoplesoft/Oracle HR financials. So our market is

17 financials at Oracle and Peoplesoft HR, the same

18 customer. Okay? Or they might have Oracle

19 procurement or Peoplesoft HR, something. So these

20 would be basic customers have both our applications.

21   Q. All right, sir. Do you have any idea of how

22 many such customers there are?

23   A. No.

24   Q. Do you have any idea of whether it's fairly

25 uncommon for one of your customers to also have

00148
1 Peoplesoft applications?

2   A. No, I would not characterize it as uncommon.

3 I think there are many. I just don't know how many,

4 but I think there are many customers that have, for

5 instance, our financials and their HR system. I have

6 talked to a number of customers who do.

7   Q. Have you -- other than talking to customers

8 that have that type of configuration, have you had

9 access to information from withinside Oracle that

10 indicated that there are a substantial number of

11 customers who had both you and Peoplesoft as part of

12 their software applications?

13   A. Yes, statements have been made like that,

14 which I have validated in talking to customers, but I

15 have never seen a precise number. But I agree with

16 the statement. We have plenty of common customers.

17 To what I know, I think that's true.

18   Q. Now, in the accounts where you and Peoplesoft

19 both have a presence, do you know whether or not your

20 sales force tries to sell that customer your product

21 to replace the Peoplesoft products that they have?

22   A. Hum. We are asked sometimes by customers to

23 quote to replace, and then there is times where I

24 suppose we've gone in and tried to displace

25 Peoplesoft.

00149

1   So it happens on either side. Either the

2 customer approaches us or we've heard the customer has

3 some concerns or issues, and we will aggressive --

4 proactively approach them.

5   Q. Do you know whether or not there are

6 circumstances where Peoplesoft has made overtures to

7 customers to displace you from their installed base?

8   A. I assume so. Just like we've done it in our

9 case, I'm sure it's happened with SAP.

10   Q. I'm sorry?

11   A. It happens with SAP. I think it's an industry

12 phenomena. From time to time there is an opportunity

13 to displace another competitor at an account.

00176

9   Q. Now, in Oracle's current plans as they relate

10 to Peoplesoft's products, is it your expectation that

11 there will a new version of Peoplesoft beyond

12 Peoplesoft 8, if you are allowed to acquire the

13 company?

14   A. No. We've been quite clear that that's not

15 our expectation. Our expectation is that we would

16 continue to support the version 8 product for ten

17 years or longer. We would do bug fixes. We'd honor

18 contractual enhancements.

19   We would make minor enhancements. It wouldn't

20 be exactly static. We would try to improve the

21 product and respond to -- but we would not invest

22 large amounts of time on a brand new version, if you

23 will.

24   And, again, we've explained this in these

25 documents in all the briefings we've given. The idea

1 would be we would take some of the best ideas from

2 Peoplesoft developers, marry that with ours, and

3 create a next generation product or version on the

4 Oracle platform.

5   Offer the migration scripts, give the free

6 license exchange. And the ideas would be that

7 customers migrating to the next version of Oracle

8 would get an improved product over version 8. So

9 that's the way they would get the next version. They

10 would get a next improved version on the Oracle

11 platform.

12   Q. Now, if you were -- well, let me back up and

13 be sure I understand what you are saying here. On a

14 going forward basis for the Peoplesoft product you say

15 you will do contractual enhancements? What are they?

16   A. Yes. Yes.

17   Q. What are they?

18   A. Well, if a customer has contracted for a

19 certain piece of functionality or something, we're

20 certainly going to honor the contract. We are not

21 going to tell a customer, well, you have a contract

22 that Peoplesoft agreed to do. We're just kidding, we

23 are not going to honor that. Of course, we're going

24 to honor that.

25   So we're going to take care of the customers

00178
1 and do what's been agreed to in writing for them. We

2 have no idea all the things that have been honored.

3 But inevitably there has been written promises made,

4 and that sort of thing. We have to honor that.

5   Q. Would that be just for that particular

6 customer or is that something you would launch for the

7 whole product?

8   A. To the extent that we build it in the core

9 Peoplesoft product, then that would be available to

10 any customer. Peoplesoft, also, has a consulting

11 business. To the extent their consultants have agreed

12 to build some code or do something around the product,

13 we will have to honor that contract, as well,

14 obviously.

15   Q. All right, sir. Then you said you would do --

16 on the Peoplesoft product post-acquisition you would

17 do bug fixes. What did you mean by that?

18   A. Well, any software products everybody has

19 them, has bugs. So there are defects in the software

20 that occasionally will show themselves and your

21 performance suffers or something happens, and so the

22 developer team has to go in and change some code to

23 make the product work properly.

24   Oracle, SAP, IBM, everybody has -- it's just

25 the way the software industry works. That's one of

1 the reasons people buy maintenance or buy support,

2 because they want to be sure that if there is a bug

3 that shows up in their product and affects their

4 application that the vendor is going to stand up and

5 fix that product for them. So that's what's called

6 support.

7   Q. Right. Then on an ongoing basis

8 post-acquisition, you indicated you would do some

9 other type of enhancements, and I don't remember what

10 the word you used to describe them were. Do you

11 recall what it is or --

12   A. I think I said minor enhancements, within the

13 release number. So, typically, there is lots of

14 little things that you may see that you can do to

15 change the code to, you know, do things, but it

16 doesn't mean you have to build a brand new version for

17 it. Right?

18   Q. Could you give me an example of the type of

19 thing that you are talking about?

20   A. I can talk about our own products. I assume

21 they do it this way, too. But we have a number of

22 things that our customers ask us for. Gee, this

23 application doesn't show something this way. We'd

24 like it to show this way.

25   So, many times we will add that into the

00180

1 software, and it is released in six months or

2 something as part of the current version. So the

3 versions are actually what we call point releases

4 along the way.

5   We've had 10 point releases in the current

6 version of 11 of Oracle. So along the way there is

7 lots of enhancements.

8   So we expect to keep a lot of developers on

9 the Peoplesoft products to fix bugs, but also to make

10 some improvements, make the product better. Again, in

11 the spirit that we want the customers to be happy. If

12 they've got some minor issues and some things that the

13 development team has been in discussions for, and they

14 are not massive things that require a brand new

15 release, we will certainly try to do that for the

16 customers.

17   Q. Well, what type of thing would require a

18 brand new release as opposed to what you've referred

19 to as minor --

20   A. Um --

21   Q. Let me get the question out, just for her

22 sake. What type of enhancements to the product would

23 require a new release as opposed to what you have

24 described as a minor enhancement?

25   A. One would be architectural changes. Sometimes

00181
1 there is changes in the industry, tool sets,

2 architecture. So, for instance, the Peoplesoft 8 was

3 a major architectural release where they went from

4 what was referred to as a client server architect to

5 an Internet architecture.

6   So they did a lot of their screens in a new

7 technology called HTML and so forth. So that is

8 visually different. It requires an architectural

9 change. That's a major change. That's one example.

10   Sometimes it is just -- there is a whole

11 series of functionality that is really a major rewrite

12 of the application. So a development team will set

13 aside, dedicate themselves to create a lot of new

14 code, and they will say we're going to put that in the

15 next release, because that's just a major rewrite of

16 this particular application. So those would be a

17 couple examples of what would be included in a new

18 release.

19   Q. Okay. And that's the type of thing you are

20 not planning on doing with the Peoplesoft product

21 post-acquisition?

22   A. That is correct. And to the extent there are

23 inevitable major new requirements, major architectural

24 changes, we will certainly do that in the Oracle

25 platform and then allow customers, as I've described

00182

1 earlier, a very easy way to move to that, so they can

2 take advantage of new architectural change, major new

3 functionality or changes in industry thinking. But

4 wouldn't do it in a new version of Peoplesoft, that's

5 correct.

00224

21   Q. Okay. Now, over what period of time did you

22 believe that Peoplesoft had a competitive advantage

23 over you in the HR area?

24   A. Oh, I think in terms of functionality, I would

25 say for most of the nineties. I think they were --

00225

1 you know, we were trying to play catchup, but it took

2 us a long time. It took us many years.

3   Q. So when you say you were trying to play

4 catchup, do you mean you were trying to duplicate the

5 functional offerings --

6   A. Requirements. Trying to add enough

7 functionality to be able to be head up when you go

8 through a demo, when you go through a scripted thing,

9 I can do this, I can do this, I can do this, I can do

10 this. Right?

11   So clearly -- and it wasn't just HR. We to do

12 it in payroll. We had to build a benefits module. So

13 it's a lot of areas where we've had to make a very

14 heavy investment. And beyond the money, there is a

15 passage of time that it takes to catch up.

16   I'm convinced from everything I know that we

17 are, by and large, very competitive now with them

18 across the board.

19   Q. Why did you spend the money in developing

20 these HR modules to catch up with Peoplesoft?

21   A. Because, again, we believe that many customers

22 want fewer vendors. They want more integrated

23 applications. Not all do, but some do.

24   And so our strategy has been to be able to

25 compete in markets like HR, financials, whatever,

00226

1 because there is a large market, so there is revenue

2 opportunity, but also as a strategy if we can make

3 them all talk together and be integrated, we can offer

4 more of a one-stop shopping kind of opportunity for

5 customers, to lower their costs, to get better

6 information integration, and so forth. So this was

7 part of our strategy.

8   As I testified earlier, we had HR when I

9 joined the company thirteen years ago. The reason we

10 played catchup is we did a poor job in the early years

11 of developing the product. We, frankly, didn't do a

12 very good job. So we brought in a new management team

13 five years into my reign and they basically started

14 over again.

15   But we had long believed strategically we

16 needed to be in the HR space. We just didn't execute

17 well in the early days, so we had to then catch up.

18   Q. So if I got the timing right then, when you

19 came in in '91 you had an HR product but you don't

20 think it was a very effective product?

21   A. I think history proved it wasn't, because

22 people came in and cleaned our clock.

23   Q. And then beginning in '95, roughly, is it five

24 years?

25   A. Roughly. I want to say '95, '96, we hired a

00227
1 new head. It had previously been developed in the UK,

2 and we set up a development team here in the U.S.,

3 kept the UK team. We still have two development

4 centers, but the primary leadership more and more

5 shifted to the U.S. under this new person that we

6 hired.

7   Q. And then how long did it take you, beginning

8 from '95, '96, when you hired this guy, this new team,

9 to the point where you got to the point you thought

10 you had caught up with Peoplesoft and HR

11 functionality?

12   A. It's hard to say. I think within three or

13 four years we were starting to be reasonably

14 competitive.

15   Then the next thing we did was start to

16 segment our sales force. We started adding a separate

17 HR sales force to sort of -- all they did was sell HR,

18 and that also proved to be helpful.

19   So it was a combination of getting more sales

20 focus, once we had a product that was pretty good.

21 Then we started developing new modules. We believe in

22 some of these new modules we're actually ahead of

23 Peoplesoft.

24   Q. If I could point you to Exhibit-38. It says

25 here that you told him that we were behind until

00228

1 recently but have equivalent functionality to HR

2 payroll, self-service, benefits, et cetera.

3   A. Uh-huh.

4   Q. And we're cheaper and we're integrated with

5 our financials, and this is dated 06 -- December 6,

6 2003. Does that help you put a time frame on when you

7 think you got caught up with Peoplesoft functionally

8 in HR?

11   THE WITNESS: Again, when I say "until

12 recently," I didn't try to put a time frame. The

13 point is there is a market perception that still

14 exists today in many people's mind, and many HR people

15 made a decision five years ago on HR.

16   They think Peoplesoft is still better. They

17 did it at Merrill Lynch. They did at Michael Stores.

18 Once we came in and did a demo. Merrill Lynch we did

19 one two years ago. They go, "My God, I had no idea

20 your functionality was so good now." When I say

21 recently, I don't mean yesterday.

22   MR. SCOTT: Q. Sure.

23   A. The point was, people's perception is this.

24 That's not true.

25   Q. Okay. So you developed a product over the

1 course of would you say three or four years that you

2 thought was reasonably competitive?

3   A. Reasonably competitive. But, again, I

4 wouldn't say we had every little bit, but it put us

5 back in the ball games. By the later part of the

6 nineties, we were at least in the ballpark.

7   Today, arguably, we're better in certain

8 cases. So it just keeps getting better. We continue

9 to push along here.

10   Q. So as of today you think you are certainly

11 equal to Peoplesoft in most areas of HR and better

12 than they are in some?

13   A. Yes. Absolutely.

14   Q. But you are still having a problem with the

15 market understanding that you have that functionality

16 in HR available?

17   A. In some cases, absolutely. I think

18 particularly with customers who made a decision

19 several years ago and haven't thought about it since.

20 When we go out and compete on a new transaction, and

21 they don't have any notion, they just come into look,

22 then that's not a problem. It's really more that

23 people had a past perception. That's the challenge.

4   Q. Would it be accurate to state that a

5 general -- that a large company could be considered a

6 general business customer if it has a decentralized

7 management system and therefore runs different

8 divisions independently from the standpoint of the

9 software it uses to support its functions?

10   A. I think that's true, in terms of their usage.

11 I mean, that may not be the way we're organized to

12 sell to them, but in terms of the way they think of

13 themselves, if they are highly decentralized and they

14 have a plant with 200 people and they are

15 making an independent decision, I would consider them

16 more of a small company, because they are really just

17 talking about software to run a small company, even

18 though they might be a part of a big company.

19   Q. Does that happen fairly often, that you have a

20 company that buys independently from different

21 business units?

22   A. Yes, although less so than in the past. There

23 is a trend for large companies to try to get more

24 consistency across their company, but there still are

25 a number of independent decisions made in larger

1 companies where divisions or countries are making sort

2 of independent decisions.

3   But I would say the trend is somewhat less of

4 that than in the past, because it's expensive, because

5 they can't get information shared across the company.

6   So I would say that with the technology, the

7 Internet, all of these things there is more of a bias

8 towards centralization.

9 Q. And over what period of time have you seen the

10 bias towards centralizing software functions within a

11 business having occurred?

12 A. Golly. I mean, I just think that -- I think

13 it's -- it's a gradual thing, and it's somewhat driven

14 by changes in technology. It's scaleability of

15 computers, the lowering cost of telecom globally, the

16 Internet.

17   So probably over the last six or seven years,

18 the technical advances, price performance. There has

19 been some barriers removed technically that offer

20 advantage to centralization, but there are still lots

21 of cultural organizational challenges, too, that keep

22 companies making these incremental, you know, local

23 decisions. So there is still a fair amount of local

24 decision-making going on.

11   Q. All right. Well, this one -- let me direct

12 your attention inside of the document maybe to page

13 ORLITF0025994, and there is a slide there that has the

14 heading "Oracle's Data Hub." Do you see that?

15   A. Uh-huh.

16   Q. Are you familiar with that slide?

17   A. I am familiar with the concept. Again, I have

18 seen certain presentations, not delivered by Larry but

19 others, about our data hub. So I certainly understand

20 the concept, but this particular slide I am not sure I

21 have seen before.

22   Q. Fair enough, sir. What is the data hub?

23   A. It is a -- it draws upon our database and some

24 of our application technology and schemas to create a

25 way for customers to bring data from multiple data

1 sources and multiple applications into one place so

2 they can have a unified view about information like

3 customer information, product information.

4   Q. All right, sir. When was that product rolled

5 out?

6   A. We announced the product, I believe, at our

7 Applications World in San Diego. I think it was held

8 this January. So it's a relatively new product that

9 we've announced.

10   Q. And is there a target market for that product?

11   A. I'm not sure. When you say target market --

12   MR. ROSCH: Yeah, objection, ambiguous.

13   THE WITNESS: There is many customers who may

14 want to use this in some form. I mean, there is many

15 customers who don't have all of their information in

16 one place, most customers don't, and there is some

17 that intend to have heterogenous systems, different

18 databases of customers and products and things.

19   So there is a lot of customers that we think

20 will view this as a way to amalgamate information

21 about -- have what we call a single source of truth.

22 But that percentage of that market is out there that

23 wants this or exact target market, I am not quite

24 clear. But certainly we think that this could appeal

25 to a lot of customers.

00267

1   MR. SCOTT: Q. And what organization within

2 Oracle is marketing this product?

3   A. I think actually both of our sales

4 organizations are. Our technology sales organization

5 and our applications sales organization will describe

6 this and be involved in selling this to some degree.

7   It's not clear to me yet, but right now it

8 appears that probably both of them will discuss it.

9 And whether who will actually sell it, I am not sure.

10   Q. Have you seen any sales results from this

11 product?

12   A. I have not. I mean, I think this is -- it's

13 too early to say. We are in an announcement

14 description, people talking about it sort of thing,

15 but I don't think we've actually seen a lot of new

16 sales yet out of this.

17   Q. If you would look at the previous page, the

18 page which has the designation ORLITF0025993.

19   A. Okay.

20   Q. Which has a table or a slide on it that's

21 headed, "We still want your data in one place." Do

22 you see that?

23   A. Yes.

24   Q. Now, whether or not you've seen this

25 particular slide, have you been involved in

00268

1 discussions regarding a homogeneous application

2 environment, i.e, Oracle applications integrated

3 together on an Oracle database being a better solution

4 than the data hub?

5   A. Let me start by saying, we believe, after

6 conversations with many customers -- I certainly have

7 had conversations with many customers -- that many

8 customers complain that their information is too

9 fragmented. Their information is in too many places.

10 It's in too many databases.

11   So we have a couple of approaches to help them

12 unify data. One is to use our e-business suite, where

13 you can deploy a lot of our applications and run them

14 all under a single database, and this data hub is an

15 alternative way for customers to integrate unified

16 data without having to deploy all the Oracle

17 applications.

18   So they don't have to use, you know, any or

19 all of the e-business suite to do that. They can

20 simply take advantage of some of the architecture of

21 the e-business suite architecture as well as our data

22 warehousing architecture and migrate that.

23   So there is a couple of approaches we offer to

24 customers to solve what we think is one of the

25 fundamental problems with customers, and that is data

00269
1 fragmentation.

2   Q. And which way do you get the best information

3 quality?

4   A. We believe that the homogeneous approach is

5 still a more pure way to do this, but it's not

6 realistic for some customers, at least in the short

7 term. So I think what we've said is in a short term,

8 the hub can be a way to bridge this or maybe even

9 forever.

10   So we're not trying to tell customers what to

11 do. We're trying to give them different solutions.

12 But to answer your question again, we think in a pure

13 world it's the single best and cheapest solution is

14 the e-business suite, because it's a little less

15 complicated.